

**STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD**

In re: Blue Cross Blue Shield of Vermont)
2024 Individual Filing)
GMCB-002-23rr
SERFF No. BCVT-133654578

In re: Blue Cross Blue Shield of Vermont)
2024 Small Group Filing)
GMCB-003-23rr
SERFF NO. BCVT-133654592

PREFILED TESTIMONY OF RUTH GREENE

Dated: July 5, 2023

Attachments:

Attachment	Title
A	Ruth Greene CV
B	<i>In the Matter of Blue Cross and Blue Shield of Vermont Risk-Based Capital Range Study</i> , No. 19-007-1 (Vt. Dep't of Fin. Reg. Feb. 7, 2019)
C	Memorandum from Ruth Greene to Martine Lemieux, May 9, 2023

1 Ms. Ruth Greene, being duly sworn, does hereby depose and say as follows:

2 **Ms. Greene, what is your position at Blue Cross VT?**

3 I am treasurer and chief financial officer at Blue Cross Blue Shield of Vermont (Blue
4 Cross VT) and have served in that position for 10.5 years, since 2012.

5 **What are your responsibilities as treasurer and chief financial officer?**

6 I am responsible for Corporate Accounting, Treasury, Actuarial, Underwriting, Customer
7 Billing and Enrollment Services. I provide on-going strategic and operational financial support
8 and leadership, to enable Blue Cross VT to manage its growth, development, and expenses. I
9 oversee management and external financial audit processes to assure that effective financial
10 systems are in place from which to manage our day-to-day operations and strategic future. I have
11 testified before the Green Mountain Care Board at hearings from 2014 through 2022 regarding
12 our Vermont individual and small group rate filings.

13 **Please provide a brief description of your professional and educational background before**
14 **joining Blue Cross VT as treasurer and chief financial officer in 2012.**

15 I have worked in leadership roles in corporate finance and accounting in the insurance
16 industry for over 30 years. I grew up in Vermont and graduated from the University of Vermont
17 in 1983. I began my career at Arthur Young as an auditor in their Portland, Maine office where I
18 spent three years, rising to a Senior Auditor role. In 1986, I took a job at Unum. Over 26 years at
19 Unum, I held multiple financial positions both in the U.S. and abroad rising to leadership level
20 within a number of business units and eventually serving as Vice President/Chief Financial
21 Officer, Global Business Technology. I was also licensed as a Certified Public Accountant in
22 Maine for 12 years.

1 **Is your current CV attached as Attachment A?**

2 Yes.

3 **What is Blue Cross VT's mission?**

4 We are "committed to the health of Vermonters, outstanding member experiences and
5 responsible cost management for all of the people whose lives we touch." Our vision is a
6 "transformed health care system in which every Vermonter has health care coverage and receives
7 timely, effective, affordable care."

8 **In your view, is Blue Cross VT's business guided by its mission and vision?**

9 Yes.

10 **Is Blue Cross VT a for-profit company?**

11 No, Blue Cross VT is a not-for-profit organization.

12 **When Blue Cross VT submits a filed rate for approval, does that rate include any profit?**

13 No.

14 **As part of your responsibilities as treasurer and chief financial officer, are you familiar**
15 **with Blue Cross VT's financial operations?**

16 Yes, I am responsible for managing all aspects of our financial operations.

17 **Are you familiar with Blue Cross VT's financial results and reserves?**

18 Yes.

1 **Please briefly explain what member reserves are and why they are important.**

2 Blue Cross VT is obligated to pay members' claims, even in the face of unexpected
3 circumstances, higher claims and costs, or financial losses. Like all insurers, we experience years
4 when claims are higher than expected and premiums are underfunded. Every insurance company
5 has to be able to weather losses. When we suffer a loss, the money comes from the reserves. In
6 addition to these underwriting losses, we must maintain a financial buffer against other
7 unforeseen contingencies. Examples include unanticipated regulatory changes (such as when the
8 federal government failed to make payments due under the Affordable Care Act), sudden
9 inflation changes, and poor market performance. Our member reserves—which we also call
10 policyholder reserves, and can be referred to as surplus—are the funds that Blue Cross VT holds
11 to make sure that it can pay claims in any circumstances. The reserves are also needed to support
12 membership growth, expansion into new market segments, or investment into innovative
13 solutions that will improve quality and lower the cost of care.

14 **Please briefly explain the term risk-based capital and its connection to reserves.**

15 Risk-based capital is a point-in-time measure of whether an insurer has enough reserves.
16 It compares the amount of risk taken on by the company to its available reserves. Risk-based
17 capital, or RBC, is expressed as a ratio between the amount of our member reserves and a figure
18 that represents our risk. It is developed based on a methodology from the National Association of
19 Insurance Commissioners that is mandated by the Vermont Department of Financial Regulation
20 (DFR).

21 **Does Blue Cross VT have any regulatory requirements that govern its risk-based capital**
22 **(RBC)?**

23 Yes. DFR has ordered Blue Cross VT to maintain sufficient reserves such that our risk-
24 based capital ratio falls within a range of 590 to 745 percent. In re Blue Cross and Blue Shield of

1 Vermont Risk-Based Capital Range Study, No. 19-007-1 (Vt. Dep't of Fin. Reg. Feb. 7, 2019)
2 (Attachment B). DFR's order provides that "[i]f BCBSVT's RBC ratio falls below or increases
3 above the approved range, BCBSVT shall promptly develop a plan to move within the range
4 within a reasonable time and shall submit such plan to the Commissioner." *Id.*

5 The risk taken on by Blue Cross VT as of December 31, 2022 requires between \$152
6 million and \$191 million in member reserves, in order for our RBC to fall within the DFR-
7 ordered range. The point in our RBC range from which we are least likely to move outside the
8 target range within the subsequent 12 months is 690 percent. That requires \$177 million in
9 member reserves. Our member reserves as of December 31, 2022 were \$111 million, translating
10 to an RBC of 434 percent. That means our reserves were underfunded by \$41 million to \$66
11 million.

12 **Please briefly explain contribution to reserves, or CTR, as a component of the rate filings.**

13 Contribution to reserves from premiums, or CTR, is the only source of funding that
14 sustains our member reserves beyond very modest income earned on investments. A minimum
15 necessary CTR is required in each year's premium to support growth in member reserves that
16 corresponds to growth in medical and pharmacy costs (trend); to support membership growth;
17 and, as explained above, to maintain a financial buffer against other contingencies.

18 **Does this level of underfunding impact the requirement for contribution to reserves**
19 **(CTR)?**

20 Yes.

1 **Ms. Greene, did you direct Martine Lemieux, the Actuarial Director of Financial Integrity**
2 **at Blue Cross VT, to file a contribution to reserves (CTR) of 3.0% for both the 2024**
3 **Vermont Individual and Small Group Rate Filings?**

4 Yes. I explained the basis for filing a 3.0% CTR in my memorandum to Martine Lemieux
5 dated May 9, 2023, which was provided to the Board as Attachment C in our 2024 Individual
6 and Small Group Rate Filings. Attachment C is incorporated by reference into and should be
7 considered part of my prefiled testimony. Blue Cross VT also included a 3% CTR in its recent
8 large group filing. *In re: Blue Cross and Blue Shield of Vermont 2024 Large Group Rate Filing*,
9 GMCB-001-23rr, at 6-7 ¶¶ 32-37 (May 11, 2023).

10 **Please explain Blue Cross VT's approach to developing the necessary CTR for the 2024**
11 **policy year and how the underfunding of Blue Cross VT's reserves affects that assessment.**

12 As I have explained in past hearings, Blue Cross VT seeks to manage member reserves
13 simultaneously to a long-term target and to a level of risk-based capital, or RBC, within the
14 range that DFR has ordered. For several important reasons, Blue Cross VT has changed its long-
15 term target CTR from 1.5 percent to 3.0 percent. To begin with, our member reserves are well
16 below the level that supports the RBC range ordered by the Department of Financial Regulation
17 (DFR). We face continuing financial headwinds that impact our risk and solvency. These include
18 increased medical and pharmacy claim trends driven by both unit costs and healthcare
19 utilization; volatility in claims utilization; and market volatility, economic uncertainty, and
20 continued inflationary pressures. Recent capital demands have reduced our reserve levels.¹ And
21 as particularly relevant here, the ACA individual and small group markets have not resulted in
22 actual CTRs of the minimum 1.5 percent level required in recent years.

¹ These include but are not limited to high claims levels; paying for pandemic-related costs; equity market losses; pension losses net of litigation recoveries; and membership growth including Medicare Advantage.

1 Blue Cross VT continues to believe that CTR should be managed to an adequate long-
2 term level rather than fluctuating significantly from year to year with changes in membership and
3 health care cost trend. But in light of the factors discussed above, we now need to target a CTR
4 that appropriately reflects the inherent risk within each market segment and current economic
5 and healthcare environments and sets us on a sustainable course back towards the DFR-ordered
6 RBC range.

7 For these reasons, we adjusted our long-term target CTR for the ACA individual and
8 small group markets to 3.0 percent.

9 **Incorporating the target 3% CTR, what is the outlook for Blue Cross VT's RBC at year-**
10 **end 2023 and year-end 2024?**

11 Blue Cross VT's response to Green Mountain Care Board Question 7 (filed June 21,
12 2023) explains our most recent series of stochastic modeling and RBC outlooks for year-end
13 2023 and year-end 2024. Our response to Question 7, including Exhibit 1 to the response, is
14 incorporated by reference and should be considered part of my prefiled testimony. As outlined in
15 that response, the most likely range for our RBC result at year-end 2023 is [REDACTED]
16 [REDACTED]. The most likely range for our RBC result at year-end 2024 is [REDACTED].
17 The outlook for Blue Cross VT's RBC is [REDACTED]
18 [REDACTED]. Blue Cross VT's results to date in 2023 indicate
19 significantly higher than expected (and priced for) medical and pharmacy claims in both our
20 commercial insured lines and Medicare Advantage business. Those higher claims are offset
21 somewhat by favorable investment gains so far in 2023, but overall year-to-date 2023 actual
22 results are significantly unfavorable as compared to our forecast. As a result, Blue Cross VT's
23 RBC is tracking towards the lower end of the modeled ranges set forth above.

24 Any reductions to our filed rate that are not actuarially supported would reduce our RBC
25 projections even further.

1 **Are you familiar with the factors that the Board is required to consider in reviewing Blue**
2 **Cross VT's rates?**

3 Yes. When reviewing a proposed rate, the Green Mountain Care Board considers whether
4 a rate is affordable, promotes quality care, promotes access to health care, protects insurer
5 solvency, and is not unjust, unfair, inequitable, misleading, or contrary to the laws of this State.
6 In making its decision, the Board must consider the analysis and opinion provided by the
7 Department of Financial Regulation regarding the impact of the proposed rate on the insurer's
8 solvency and reserves.

9 **In your view, do the proposed rates meet those criteria?**

10 Yes. The proposed rates reflect the revenue Blue Cross VT has reasonably concluded is
11 necessary to cover: (1) the projected claims costs of our members; (2) Blue Cross VT's projected
12 costs of doing business; and (3) the contribution to member reserves that is necessary and
13 appropriate for the reasons given above.

14 **Does the filed rate include the cost of providing high quality healthcare to Vermonters?**

15 Yes.

16 **What percentage of the as-filed individual and small group premium reflects**
17 **administrative costs?**

18 Our projected base administrative charge is 7.02% of premium for individual and 6.27%
19 for small group, which is a decrease from the approved 7.83% and 6.78%, respectively charge
20 for 2023.

1 **How does that compare with other insurers?**

2 Lewis & Ellis, the Board’s actuary, reported last year in the individual rate review that
3 our administrative costs “on a percentage of premium basis ranked 31st out of 62 plans assessed.
4 That is, on a percentage of premium basis, BCBSVT had lower expenses than approximately
5 50% of the Blues plans who sold individual and small group products.” Lewis & Ellis also
6 reported that our “administrative costs on a PMPM basis ranked 10th out of 62 plans assessed.
7 That is, BCBSVT had higher PMPM expenses than approximately 85% of Blues plans.” They
8 went on to say “While we note that BCBSVT was previously on the low end of administrative
9 costs for Blues plans nationally, it is important to note that Vermont is a relatively small state
10 and has fewer members to spread fixed cost over than most other Blues plans. As such, we do
11 not think that being at the 85th percentile for administrative costs PMPM is unreasonable for
12 BCBSVT.” Lewis & Ellis Letter re: 2023 Individual Rate Filing, at 23 (July 5, 2022).

13 As a small, locally focused health plan, we work hard to keep our administrative costs
14 low while doing the work necessary to administer the plans, provide for excellent customer
15 service, and ensure access to quality care for our members. As I explain below, one of the
16 reasons Blue Cross VT is pursuing affiliation with BCBS Michigan is to reduce the cost of
17 necessary technology upgrades. Although this long-term potential cost avoidance does not affect
18 our 2024 rates, it shows that we are working creatively and thoughtfully to reduce administrative
19 costs without sacrificing our ability to meet the local needs of our members and providers and to
20 continue as a leader in Vermont’s health care reform efforts.

21 **Are Blue Cross VT’s administrative expenses reasonable and not excessive?**

22 Yes. We work tirelessly to continuously improve our business processes to provide for
23 cost-effective solutions for our members and providers. We face significant inflationary
24 pressures and as a small, locally focused health plan we are challenged every day to do more
25 with less.

1 **Blue Cross VT has announced that it is pursuing regulatory approval of a proposed**
2 **affiliation with BCBS Michigan. What impact, if any, does the proposed affiliation with**
3 **BCBS Michigan have on the 2024 premium rate?**

4 None. As noted in Blue Cross VT's response to L&E Inquiry 2, Question 6 (filed May
5 30, 2023), we cannot begin to implement the affiliation until federal and state regulators
6 complete their reviews and approve the agreement. As a result, it is premature to project impacts
7 on the rates currently under review.

8 After regulatory review, and assuming the affiliation is approved, it will take time and
9 resources to transition to the new technology environment. Because of this transition period,
10 even if we receive all necessary regulatory approvals before 2024, there is no basis to project
11 impacts on 2024 rates. Once we transition our technology and systems, we expect the affiliation
12 to enable Blue Cross VT to forego substantial expenditures on technology without the cost of
13 building or buying it from unrelated third parties. Therefore, we anticipate that the affiliation will
14 avoid cost growth in future filings that would otherwise have been included absent the affiliation.

15 **What impact does the proposed affiliation with BCBS Michigan have on the outlook for**
16 **2024 RBC?**

17 None. As explained in Blue Cross VT's response to L&E Inquiry 2, Question 6 (filed
18 May 30, 2023), the recently announced agreement between Blue Cross VT and BCBS Michigan
19 does not include any sort of capital guarantee, nor is BCBS Michigan providing any capital to
20 Blue Cross VT. There is no financial exchange between the two organizations. The premiums
21 from Vermonters will wholly be used to pay Vermont member claims and fund Vermont
22 member reserves and plan administration—exactly as is the case today. Each entity will continue
23 as a single state plan, financially separate from the other.

24 Further, the proposed affiliation must now go through separate federal and state
25 regulatory approval processes before the two companies can begin implementation. As we

1 explained in Blue Cross VT's response to Green Mountain Care Board Question 7 (filed June 21,
2 2023), it is always difficult to project future RBC levels; we cannot base our outlook projections
3 on a proposed future affiliation that is still pending regulatory approval. And even if we could,
4 given the transition period described above, we would not project an impact for year-end 2024.
5 Assuming the affiliation is approved, however, we anticipate gradual impacts to our RBC
6 position as we implement and realize benefits from the affiliation.

7 As relevant to these rates and this review process, our concern is that Blue Cross VT's
8 RBC will remain under pressure in the near-term for all of the reasons I explained above.

9 **Does this conclude your prefiled testimony?**

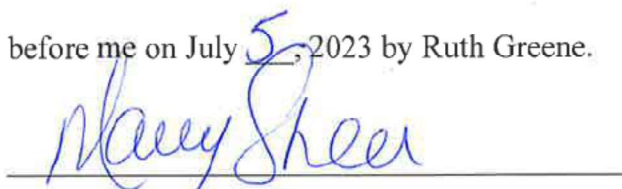
10 Yes.


Ruth Greene

State of Vermont, County of Washington.

Signed and sworn to (or affirmed) before me on July 5, 2023 by Ruth Greene.

Signature of notary public:



Printed name of notary public

MARY SHEA

Commission number:

0000833

Commission expiration date:

01/31/2025

Title of office is Notary Public.

Mary Shea
Notary Public
State of Vermont
Commission Number: 0000833
Commission Expires: 01/31/2025

CERTIFICATE OF SERVICE

I certify that I served the above Prefiled Testimony of Martine Brisson-Lemieux (dated July 5, 2023) on Michael Barber, Laura Beliveau, Geoffrey Battista, and Tara Bredice of the Green Mountain Care Board; and on Eric Schultheis and Charles Becker, counsel for the Office of the Health Care Advocate, by electronic mail, on July 5, 2023.

/s/ Bridget Asay

Bridget Asay
Stris & Maher LLP
15 E. State Street
Suite 2
Montpelier, VT 05602
(802) 522-2346
basay@stris.com

Attachment A

Ruth K. Greene

CONTACT INFORMATION

Address: 445 Industrial Lane, Berlin, Vermont
Telephone: (802) 371-3210

PROFESSIONAL AFFILIATIONS / CERTIFICATIONS

Other Education

- Certified Public Accountant, licensed CPA in State of Maine for 12 years. CPA Exam first time pass
- Knowledge Management Masterclass, Middlesex University/ CIBIT, London, England, United Kingdom
- Training in Lean Six Sigma continuous improvement methods

CAREER DETAILS

October 2012 to present

Blue Cross and Blue Shield of Vermont

Vice President, Treasurer and Chief Financial Officer Berlin, Vermont

As a member of the BCBSVT executive team, I am responsible for Corporate Accounting, Treasury, Actuarial, Underwriting, and Enrollment Services. I provide on-going strategic and operational financial support and leadership, as well as provide accurate and timely management reports enabling the organization to more aptly manage its growth, development and expenses. I also provide effective oversight of management and external financial audit processes and assure that the most effective financial systems are in place from which to management the day-to-day operations and the company's strategic future.

UNUM Corporation (1986-2012)

2010 to September 2012

Vice President, Chief Financial Officer, Global Business Technology Portland, Maine

As a member of Global Business Technology executive team, I was responsible for establishing and executing financial management strategy for global technology shared services organization. I was also responsible for short-term and long-term financial plans that align with operating businesses. I lead the design and implementation of financial reporting that provides transparent view of technology investments and benefit of spend. I was responsible for enterprise-level technology vendor management strategy; leading design and implementation of global procurement center of excellence. I lead a team of 28 to 30 finance and procurement professionals; total GBT organization is 1500 people and approximately \$300 million annual spend.

2008 to 2010

Vice President, Corporate Strategic, Capital and Investment Planning, Portland, Maine

I supported the executive decision making through researching market and economic trends and overseeing strategic analysis including competitive intelligence. In addition I prepared agenda and materials for annual strategic review session with board of directors. I also synthesized cash-flow generating aspects of business plans into forward looking view and recommended ways to maximize capital efficiency. In addition, I managed the process of diagnosis and analysis of financial statement impact of future investing activity.

2005 to 2008**Vice President, Planning and Forecasting, United States Brokerage, Portland, Maine**

United States Brokerage operations encompassed \$6 billion in earned premium, more than 8,000 people and operating expense budget of \$1 billion. Reporting to the Chief Financial Officer of United States Brokerage I led the group of executives responsible for business functions in determining and executing business plans to achieve financial objectives. I was also responsible for overall business and financial planning for the largest Unum operating entity.

2002 to 2005**Assistant Vice President, Head of Underwriting Metrics and Planning
Portland, Maine**

Metrics and planning support for underwriting function covering all group and individual products; 800 people and operating budget of \$70 million. I started up the metrics function to consolidate tracking, measurement and reporting of underwriting results including demonstrating value of underwriting to the business. I led the business initiative and budget planning processes for underwriting function. I was the project sponsor for initiative to create reliable information system to provide regional portfolio managers with relevant context to support decision-making.

1998 to 2002**Vice President, Director and Chief Financial Officer – Finance, Strategy and Corporate Development, Unum Limited (United Kingdom), Surrey, England, United Kingdom**

A wholly-owned subsidiary of Unum Corporation, Unum Limited is the market leader in the United Kingdom in group income protection insurance; annual premiums of \$240 million, ROC consistently in excess of 15 percent, assets of over \$1 billion and 500 employees.

I was in a key cross-functional role responsible for finance, strategy, identification of growth opportunities and implementation of development initiatives to achieve Company's vision of market leadership and profitable growth. My accomplishments included the strategic review of the business, re-design of sales force compensation plans and consultative review of best practices in the areas of risk management and underwriting. I was also recognized for creating a high degree of collaboration and teamwork among the senior management team. My duties also included management of product pricing, capital management, value-based management, management and regulatory reporting, and investment strategy including asset/liability matching. In addition, I was responsible for business and financial planning including project appraisal. I was also a member of the risk and controls review group to oversee operational controls.

1996 to 1998**Vice President, Director - Finance, Unum Limited (United Kingdom)
Surrey, England, United Kingdom**

Reporting to the Managing Director (Chief Executive Officer), I was responsible for accounting, reporting (parent co., management and regulatory), budgeting, planning, cash flow management and tax oversight. This was a leadership role and I was actively involved in all aspects of business and financial plan development and execution.

1992 to 1996**Assistant Vice President and Controller, Investment Division****Portland, Maine**

Reporting to the Chief Investment Officer, I was responsible for accounting and reporting for Unum's invested assets (Statutory and GAAP bases). My key responsibilities included accurate income projections by product line, allocation of cash flows and effective reporting and analysis. The Portfolio consisted of \$10 billion bonds, stocks, mortgages and real estate; managed staff of 40.

1986 to 1992**Manager / Director, Corporate Accounting****Portland, Maine**

I was responsible for the operation and control of the general ledger including management of closing deadlines and installation of new general ledger and chart of accounts in support of both Statutory and GAAP accounting. I was also responsible for SEC and internal reporting, GAAP and Statutory accounting, and accounting policies. I managed a professional staff of 14 members and coordinated external audit and resolution of issues.

1983 to 1986**Arthur Young & Company****Portland, Maine**

Arthur Young & Company was one of the world's largest accountancy firms. It was acquired by Ernst & Young LLP in 1989 which is a professional services company and provides assurance, auditing, technology and security risk, enterprise risk management, transaction support, merger and acquisition, actuarial, and real estate advisory services

- **Audit Senior**

I planned and executed audits for companies in various industries including publishing, healthcare, banking and non-profit.

CAREER SUMMARY

I grew up in Vermont and graduated from the University of Vermont in 1983. I began my career at Arthur Young as an auditor in their Portland, ME office where I spent three years, rising to a Senior Auditor role. In 1986, I took a job at Unum. Over the 26 years at UNUM, I held multiple financial positions both in the US and abroad rising to leadership level within a number of business units. In 2012, I returned to my home State of Vermont to become the Treasurer and CFO of Blue Cross and Blue Shield of Vermont.

EXPERT TESTIMONY

Provided expert testimony before Green Mountain Care Board at hearings from 2014 through 2019 regarding BCBSVT Vermont individual and small group rate filings.

Attachment B

**STATE OF VERMONT
DEPARTMENT OF FINANCIAL REGULATION**

IN THE MATTER OF:

Blue Cross and Blue Shield of Vermont
Risk-Based Capital Range Study

)
)
)
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No. 19-007-I

ORDER

WHEREAS, the Commissioner of the Department (the "Commissioner") is responsible for administering and enforcing the insurance laws of the State of Vermont, including 8 V.S.A. §§ 10, 11, 12, 15, 3304, and 8302; and

WHEREAS, the Department has consulted with its actuaries and, with them, reviewed materials submitted by Blue Cross and Blue Shield of Vermont relating to its risk-based capital range; and

WHEREAS, the Company cooperated with the Department in its inquiry and review by responding to inquiries and providing documentary evidence and other materials;

NOW THEREFORE, the Commissioner makes findings and conclusions as follows:

FINDINGS OF FACT

1. Blue Cross and Blue Shield of Vermont (BCBSVT) is a nonprofit licensee of Blue Cross Blue Shield Association, conducting health-insurance business in the State of Vermont.
2. Risk Based Capital (RBC) is a method of measuring the amount of capital appropriate for an insurance entity to support its overall business operations in consideration of its size and risk profile.

3. RBC, properly applied, requires companies with differing risk profiles to hold different amounts of capital, and for companies and regulators to modify RBC for a given company over time, as the company's risk profile and size change.

4. Since 2011, BCBSVT has targeted an RBC ratio range of 500% to 700%.

5. Since 2013, BCBSVT's RBC ratio has been between 558% and 666%, and has been more stable than the ratios for most other similar entities.

6. As a not-for-profit health insurer, BCBSVT, like other such entities, is generally limited to raising capital from its own operations, while a for-profit entity may have other capital sources.

7. BCBSVT is a member of the national Blue Cross Blue Shield Association (BCBSA), and therefore is subject to the terms of a BCBSA license.

8. BCBSVT would face monitoring by BCBSA if its RBC ratio were to fall beneath 375%; BCBSVT has stated that its risk tolerance is for no greater than a 10% chance of a drop to that level over a five-year time horizon, and no greater than a 1% chance of a drop to 200% over that time horizon.

9. BCBSVT's stated risk tolerance is reasonable and appropriate in light of the above facts.

10. BCBSVT's actuarial consultant recommends, and BCBSVT requests, that the Department approve an RBC ratio target of 590% to 745%.

11. BCBSVT's request is based on a recommendation from an actuarial firm that is qualified to complete the actuarial analysis and give such a recommendation, and the firm used reasonable assumptions, considered appropriate risks, and produced a reasonable and appropriate recommendation for the surplus range.

12. The Commissioner's retained actuaries are qualified to evaluate the BCBSVT actuarial analysis and have done so employing accepted actuarial methods.

13. BCBSVT's requested range is reasonable and appropriate in light of the risk-based capital factors in 8 V.S.A. § 8302(c).

ORDER

NOW, THEREFORE, based on the Commissioner's Findings of Fact, the Commissioner orders as follows:

1. The Commissioner approves BCBSVT's proposed RBC ratio of 590% to 745%.
2. BCBSVT shall not, in any regulatory proceeding, state or imply that its RBC ratio target is other than 590% to 745%.
3. If BCBSVT's RBC ratio falls below or increases above the approved range, BCBSVT shall promptly develop a plan to move within the range within a reasonable time and shall submit such plan to the Commissioner.
4. BCBSVT shall review its RBC range at least once every five years, and more frequently if there is a material change affecting the appropriate range.
5. This Order shall be governed by and construed under the laws of the State of Vermont.

Entered at Montpelier, Vermont this 7th day of February, 2019.

A handwritten signature in black ink, appearing to read 'M. Pieciak', with a long horizontal flourish extending to the right.

Michael S. Pieciak, Commissioner
Department of Financial Regulation

Attachment C

MEMORANDUM

To: Martine Lemieux, Actuarial Director of Financial Integrity

From: Ruth Greene, VP, Treasurer and CFO

Date: May 9, 2023

Subject: Contribution to Member Reserves for 2024 ACA Market Individual and Small Group Filings

Upon consideration of the points documented in this memorandum, I am recommending that you file a contribution to member reserves (CTR) of 3 percent for 2024 ACA market individual and small group rate filings.

Overall CTR Philosophy

Because of continuing financial headwinds that include increased medical and pharmacy trends, economic uncertainty and continued inflationary pressures, volatility in claims utilization, and member reserves well below the range ordered by the Department of Financial Regulation (DFR), Blue Cross VT is changing its long-term target contribution to member reserves from 1.5 percent to 3.0 percent. This change is consistent with our philosophy of managing member reserves simultaneously to a long-term target and to a level of Risk Based Capital (RBC) that moves towards the range ordered by DFR to support our solvency.

Blue Cross VT has long held that a long-term CTR of 1.5 percent represents an adequate, yet not excessive, contribution to member reserves. CTR at this level within a typical (until recently) trend and growth environment has allowed us to navigate short-term fluctuations while maintaining reserve levels that are within our established, DFR-mandated target range. But a 1.5 percent CTR is no longer sufficient, because Blue Cross VT has experienced a significant period of much higher medical cost trends, unusual business volatility and the current economic and healthcare environment is anything but typical. Blue Cross VT must increase its long-term CTR by market segment because of increasing claims trends – driven by both unit costs and healthcare utilization – as well as market volatility and recent capital demands that have reduced our reserve levels¹. As particularly relevant here, the ACA individual and small group markets have not resulted in a contribution to member reserves to the minimum 1.5 percent level required in recent years.

While Blue Cross VT believes that CTR should be managed to an adequate long-term level rather than fluctuating significantly from year to year with changes in membership and health care cost trend, we do

¹ These include events such as, but not limited to, high claims levels, paying for pandemic related costs, equity market losses, pension losses net of litigation recoveries and growth including serving new markets.

need to reflect the inherent risk within each market segment and current economic and healthcare environments.

For these reasons, we are adjusting our long-term target CTR for ACA individual and small group markets to 3.0 percent.

Importance of Adequately Funded Premiums

Adequately funded premiums are the foundation of solvency, which is itself the most important element of consumer protection. An adequate contribution to member reserves should exceed the minimum required to keep pace with increases in total claims costs. While best-estimate assumptions are by definition expected to lead to equal likelihood of gains and losses, unexpected events or periods of sustained losses may lead to financial deterioration of sufficient magnitude to threaten a company's solvency.

Apart from modest investment income, CTR is the only source of funding that sustains member reserves for Blue Cross VT. While any rate filing is by definition an estimate of future costs and is therefore subject to gains or losses, Blue Cross VT files no additional margin beyond the required CTR. Any rate shortfall will first be paid out of CTR, while any shortfall beyond the approved CTR for a particular filing will be funded from existing member reserves.

Maintaining an adequate level of member reserves is critical for any insurer. Consequences of inadequate member reserves include reduced flexibility in responding to customer needs, a need for higher margins in rates in order to avoid further deterioration, restrictions on investing in capabilities to meet customer expectations and/or enhance affordability, and a reduced ability to attract or retain business or to support membership growth. Stability is particularly important in times of change, including the continuing evolution at both the federal and Vermont levels of the individual and small group market, the health care reform environment in Vermont, and the changing economic cycles.

Blue Cross VT must be financially strong in order to continue to provide Vermonters with access to high quality care, outstanding member experiences, and responsible cost management. Realizing a sustainable CTR over time is key to achieving that goal.

Current Capital Environment and Market Considerations

Blue Cross VT's finances and member reserves have experienced extreme turbulence since 2020. Between the pandemic, pension losses and subsequent partial recoveries, legal and tax settlements, equity market fluctuations, and other positive and negative factors, this has been a period of unusual volatility. This cascade of extraordinary one-time situations illustrates exactly why Blue Cross VT must maintain adequate member reserves. This is also why Blue Cross VT's RBC target is expressed as a range rather than a point estimate—managing within an appropriate target range may be feasible in a volatile environment whereas managing to a specific point in the range is not.

Blue Cross VT experienced growth in individual and small group membership from 2021 to 2023. As we continue to strive to grow our market share within the ACA market, we cannot do so by intentionally underfunding premiums or by filing a CTR that does not adequately protect us from short-term fluctuations or unforeseen events, as membership growth puts downward pressure on RBC. Further, growth from our successful entry into the Medicare Advantage market is pressuring RBC in the near-term but is expected to provide significant benefits in the long-term by serving an increasing number of

Vermonters with locally based solutions that diversify Blue Cross VT's business mix. Finally, Blue Cross VT continues to face strong competitive pressure on its largest accounts, which will continue to challenge our ability to sustain the scale that serves all of our local market clients and customers.

For these reasons, our leadership and our regulators must see beyond the volatility, recognize the need to support Blue Cross VT's ability to provide Vermonters with a trusted local solution, and steer Blue Cross VT based on underlying trends in a way that allows us to maintain adequate member reserves that will see policyholders through tough times.

Risk Based Capital Outlook

On February 7, 2019, the Commissioner of the Vermont Department of Financial Regulation (DFR) issued an order approving a target Risk Based Capital (RBC) range of 590 percent to 745 percent. The order states, in part:

“If BCBSVT's RBC ratio falls below or increases above the approved range, BCBSVT shall promptly develop a plan to move within the range within a reasonable time and shall submit such plan to the Commissioner.”

As of December 31, 2022, Blue Cross VT's RBC was well below the targeted range, at 434 percent. As noted above, uncertainties with regard to future growth of insured membership, continued economic and market volatility, uncertainties surrounding hospital budgets, as well as a very challenging competitive environment make it difficult to predict where Blue Cross VT will be relative to the range by the end of 2024. Even with all the uncertainties, it appears to be unlikely that Blue Cross VT's RBC position will even *reach* the required range at the end of 2024.

Recently Announced Proposed Affiliation

On May 1, 2023, Blue Cross VT announced that it intends to affiliate with Blue Cross and Blue Shield of Michigan. The 2024 rate filing is unaffected by this proposed affiliation. The affiliation is subject to regulatory approval. The regulatory approval process will begin once both entities file with their respective state regulators and does not have a specific timeline.

If the affiliation is approved, each organization will continue to operate financially as a single state plan. There is no financial exchange of member reserves between the two organizations. The premiums from Vermonters will wholly be used to pay Vermont member claims, fund Vermont member reserves and plan administration as is the case today. Adequately funded premiums to provide Vermonters with access to quality healthcare will remain a critical part of each rate filing. Further, the two companies' member reserves will remain separate and distinct. As a regulated insurer, Blue Cross VT must maintain financial member reserves to be able to ensure our solvency, invest in cost-saving programs, and protect our members through a pandemic or similar crisis.

Conclusion

In consideration of all the above, I recommend that you file a 3.0 percent CTR for the 2024 ACA market individual and small group filings.